

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00

DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 FEA-02 OMB-01

SWF-02 IO-14 OIC-04 AF-10 EA-11 EUR-25 NEA-10 DRC-01

/245 W

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P R 262000Z MAR 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 6592

INFO AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA

AMEMBASSY BRASILIA

AMEMBASSY GUAYAQUIL

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA PRIORITY

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E.O. 11652: N/A

TAGS: ETRD, CS

SUBJECT: BANANAS AND STANDARD FRUIT

REF: STATE 057517

1. SUMMARY: KIRCHHOFF AND WAITE OF STANDARD
DESCRIBED MARCH 25 MEETING WITH FIGUERES AND OTHERS AS NOT
PRODUCTIVE. FIGUERES HAS POSTPONED IMPLEMENTATION OF TAX
UNTIL APRIL 15 (FOR MARKET REASONS, NOT AS CONCESSION
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TO STANDARD). STANDARD OFFICIALS REITERATED TO US INTENTION TO

CLOSE DOWN OPERATIONS RATHER THAN PAY TAX. OUR ASSESSMENT IS THAT WE HAVE AN EYEBALL TO EYEBALL SITUATION WITH NEITHER STANDARD NOR FIGUERES YET PREPARED TO BACK DOWN. END SUMMARY

2. STANDARD FRUIT PRESIDENT KIRCHHOFF AND VICE PRESIDENT WAITE RETURNED TO COSTA RICA FROM HONDURAS FOR A SECOND MEETING WITH PRESIDENT FIGUERES AND OTHERS ON THE MORNING OF MARCH 25. KIRCHHOFF, WAITE, STANDARD'S REGIONAL MANAGER, AND THEIR LOCAL ATTORNEY CALLED AT EMBASSY LATE SAME DAY FOR HOUR LONG DISCUSSION OF SITUATION AND STANDARD'S POSITION.

3. KIRCHHOFF DESCRIBED THE MEETING WITH FIGUERES AS COMPLETELY CONTRARY TO WHAT HE HAD EXPECTED AND NOT PRODUCTIVE. WHAT HAD BEEN BILLED AS A CONTINUATION OF PRIVATE TALKS BETWEEN STANDARD AND FIGUERES WAS EXPANDED INTO LARGE MEETING WITH REPRESENTATIVES OF ALL FOREIGN FRUIT COMPANIES (INCLUDING TAYLOR AND HARVEY JOHNSON FROM BOSTON OF UNITED). MOREOVER, HONDURAS MINISTER BENNATON AND GOCR MINISTERS ALPIZAR AND KOGAN ALONG WITH GOCR VICE PRESIDENT ROSSI ATTENDED. KIRCHHOFF DESCRIBED THE MEETING AS AMICABLE ENOUGH BUT WITH NO SIGN OF COMPREHENSION OF THE REAL PROBLEM BY FIGUERES AND OTHER GOVERNMENT REPRESENTATIVES. HE SAID STANDARD ONCE MORE EXPLAINED IN SOME DETAIL THEIR THESIS THAT THE \$1 PER BOX TAX WOULD RESULT IN A MUCH LARGER ADD-ON EFFECT TO RETAIL PRICES WITH THE RESULT THAT DEMAND IN THE U.S. MARKET WOULD BE DAMPENED BY 50 PERCENT. KIRCHHOFF SAID ALL THE COMPANIES AGREED GENERALLY WITH THIS ANALYSIS ALTHOUGH HE ADMITTED THAT STANDARD TOOK THE LEAD IN ITS PRESENTATION. THE OTHER SIDE CHALLENGED THIS VIEW, INTIMATING THAT IF THE TAX WOULD FAIL TO PROVIDE SIGNIFICANT NEW EARNINGS IT WOULD ONLY BE BECAUSE THE COMPANIES DESIRED FAILURE.

4. KIRCHHOFF SAID THAT STANDARD HAD PROPOSED DELAYING IMPLEMENTATION OF THE TAX FOR 30 DAYS IN ORDER THAT A MUCH MORE COMPREHENSIVE MARKET STUDY COULD BE UNDERTAKEN. HE INDICATED THIS PROPOSAL (WHICH APPARENTLY HAD BEEN MADE EARLIER) WAS AN EXCUSE FOR A CHARADE IN WHICH FIGUERES AND THE GOCR MINISTERS ARGUED AMONG THEMSELVES THE MERITS OF APRIL 1 AS AGAINST APRIL 30. FINALLY AFTER A "CONSULTA-LIMITED OFFICIAL USE

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TION" WITH HIS MINISTERS, FIGUERES ANNOUNCED THAT IMPOSITION OF THE TAX WOULD BE DELAYED UNTIL APRIL 15 AND THAT THE PRODUCING COUNTRIES WOULD AGREE TO HOLD BACK 12 PERCENT OF PRODUCTION DURING THESE 15 DAYS FOR THE PURPOSE OF ALLOWING THE MARKET TO ADJUST. (KIRCHHOFF SAID THIS "COMPROMISE" HAD NOTHING TO DO WITH HIS PROPOSED STUDY BUT WAS ENTIRELY DUE TO MARKET CONSIDERATIONS AND THAT THE 12 PERCENT HOLD BACK WOULD INVOLVE ONLY SECONDS AND REJECTS, NOT FIRST QUALITY FRUIT.)

FIGUERES FINALLY ABRUPTLY ADJOURNED THE MEETING, LEAVING AT LEAST THE STANDARD OFFICIALS, KIRCHHOFF SAID, WITH A FEELING THAT THERE HAD BEEN NO REAL DIALOGUE AND NO JOINT DECISIONS REACHED.

5. KIRCHHOFF AND WAITE REPEATEDLY STATED TO EMBOFFS THAT THEY COULD NOT ACCEPT THE TAX AND THE ONLY ALTERNATIVE WOULD BE TO SHUT DOWN OPERATIONS IF THE TAX WOULD BE PUT INTO EFFECT AS NOW ENVISIONED. THEY SAID THEY WERE UNWILLING TO "GIVE THE TAX A TRY AND LET THE MARKET PROVE THEIR ARGUMENT" SINCE THIS WOULD INVOLVE LOSSES RUNNING UP TO \$2 MILLION A WEEK WHICH STANDARD CANNOT AFFORD. THEY SHRUGGED OFF SUGGESTIONS FROM EMBOFFS THAT IF THEY ACTUALLY DID SHUT DOWN, THE POLITICAL FALL OUT MIGHT BE SO GREAT THAT IT WOULD BE DIFFICULT IF NOT IMPOSSIBLE FOR THEM TO AGAIN OPERATE IN COSTA RICA. THEY ALSO SAID THAT IF THEY COULD THEY WOULD GLADLY TURN THEIR ASSETS INTO CASH AND PULL OUT, ASKING ONLY HALF JOKIN
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P R 262000Z MAR 74
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC PRIORITY 6593
INFO AMEMBASSY BOGOTA
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8. CERTAINLY, THE COSTA RICANS SEEMED TO BELIEVE THAT THEY HAVE PUT TOGETHER A SYSTEM FOR INCREASING REVENUE FROM BANANAS THAT WILL WORK IF ONLY THE BANANA COMPANIES WILL COOPERATE. AND THIS IS ONE ISSUE IN WHICH SO FAR FIGUERES SEEMS TO HAVE THE ENTIRE COUNTRY BEHIND HIM. THE BANANA TAX IDEA HAD ITS GENESIS IN PRESIDENT FIGUERES' "GRITO DE TRES RIOS" PROPOSAL FOR A SIMILAR TAX BY PRODUCERS ON COFFEE TO OFFSET THE CHARGES ACCRUING TO THE UNDERDEVELOPED WORLD AS A RESULT OF INCREASES IN PETROLEUM PRICES. (SEE SAN JOSE 0229.) THE IDEA WAS QUICKLY TRANSFERRED TO
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BANANAS AND WHETHER ULTIMATELY SUCCESSFUL OR NOT, AT LEAST INITIALLY FIGUERES WAS ABLE TO ACHIEVE SURFACE AGREEMENT AMONG THE PRESIDENTS OF THE LEADING BANANA PRODUCING COUNTRIES. THE DESIRE (IF NOT THE MECHANISM) TO INCREASE EXPORT EARNINGS BY COSTA RICA IS UNDERSTANDABLE SINCE PETROLEUM RELATED PRICE EFFECTS THREATENS ALMOST A 100 PERCENT INCREASE IN COSTA RICA'S TRADE DEFICIT AND A COMPLETE EXHAUSTION OF NET FOREIGN RESERVES FROM ONE YEAR TO THE NEXT--THIS DESPITE EXCELLENT RETURNS FROM OTHER TRADITIONAL EXPORT COMMODITIES.

9. THE SITUATION WE SEEM TO HAVE NOW IS ONE IN WHICH NEITHER THE GOCR NOR STANDARD CAN SEE THE OTHER'S VIEWPOINT NOR IS WILLING PUBLICLY TO GIVE AN INCH. STANDARD IS PROBABLY CORRECT IN ITS VIEW THAT THE TAX WILL HAVE MARKET DISRUPTIVE EFFECTS AND THAT ECUADOR WILL END UP THE REAL WINNER BY UNDERSELLING THE CENTRAL AMERICAN PRODUCERS. STILL THE QUESTION IS TO WHAT EXTENT STANDARD REALLY WILL STICK TO ITS OWN INFLEXIBLE POSITION -- OR TRY TO SEEK SOME SORT OF COMPROMISE. IF STANDARD IS BASICALLY TRYING TO PLAY IT EYEBALL TO EYEBALL, WE DON'T THINK THE GOCR IS ABOUT TO BACK OFF. ULTIMATELY MUCH COULD DEPEND UPON WHETHER UNITED AND DEL MONTE ARE WILLING OPENLY TO ASSOCIATE THEMSELVES WITH STANDARD'S POSITION. CONTRARY TO WAITE'S IMPRESSION, A SUSPENSION OF OPERATION BY STANDARD WOULD HAVE A SERIOUS ECONOMIC--AND CERTAINLY AN IMMEDIATE POLITICAL--IMPACT HERE. WIDESPREAD UNEMPLOYMENT IN LIMON PROVINCE WOULD BE ONE RESULT, WITH SECONDARY ADVERSE EFFECTS ON THE ENTIRE COSTA RICAN ECONOMY.
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